



**THE JAPAN – UNITED STATES FRIENDSHIP COMMISSION
TRUST FUND**

FINANCIAL STATEMENTS

As Of and For the Years Ended September 30, 2006 and 2005

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Independent Auditors' Report

Executive Director and Board of Commissioners
Japan-United States Friendship Commission
Washington, DC

We have audited the balance sheet of the Japan-United States Friendship Commission ("The Commission") as of September 30, 2006, and the related statements of net cost, changes in net position, budgetary resources, and financing for the year then ended (herein referred to as "financial statements"). Information presented for September 30, 2005 and the year then ended is audited (see audit report dated October 31, 2005) and is presented for comparative purposes. The objective of our audit was to express an opinion on the fair presentation of these financial statements.

In connection with our audit, we also considered The Commission's internal control over financial reporting and tested The Commission's compliance with certain provisions of applicable laws, regulations, contracts and grant agreements that could have a direct and material effect on its financial statements.

Management's Responsibilities. The *Accountability of Tax Dollars Act* (ATDA) requires the agency to report annually on its financial status and any other information needed to fairly present its financial position and results of operations. Management is responsible for the financial statements, including:

- Preparing the financial statements in conformity with accounting principles generally accepted in the United States of America.
- Establishing and maintaining effective internal controls over financial reporting.
- Complying with laws, regulations, contracts, grant agreements, and memorandums of understanding, including Federal Financial Management Improvement Act (FFMIA), and the Japan-United States Friendship Act of 1975, as amended, that established the Japan-United States Friendship Commission, and defined its public purpose and governing structure.



In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies. Because of inherent limitations in internal control, misstatements, due to error or fraud, may nevertheless occur and not be detected.

This independent audit report is a consolidated report on the following:

- Opinion on financial statements
- Report on internal control over financial reporting
- Report on compliance with laws and regulations and other matters
- Distribution

OPINION ON FINANCIAL STATEMENTS

We have audited the balance sheet of the Japan-United States Friendship Commission as of September 30, 2006, and the related statements of net cost, changes in net position, budgetary resources, and financing for the year then ended. Information presented for September 30, 2005 and the year then ended is audited (see audit report dated October 31, 2005) and is presented for comparative purposes.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, "Audit Requirements for Federal Financial Statements," as amended. Those standards and OMB Bulletin No. 01-02 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes: (i) examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; (ii) assessing the accounting principles used and the significant estimates made by management; and (iii) evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Japan-United States Friendship Commission as of September 30, 2006, and its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations, for the year then ended, in conformity with accounting principles generally accepted in the United States of America (GAAP), and the form and content for entity financial statements specified by the Office of Management and Budget (OMB) in OMB Circular A-136, which supersedes OMB Bulletin No. 01-09, "Form and Content of Agency Financial Statements" as amended. GAAP for Federal entities are standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), which has been designated the official accounting standards-setting body for the Federal Government by the American Institute of Certified Public Accountants.



REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered Japan-United States Friendship Commission's internal control over financial reporting by obtaining an understanding of the agency's internal control, determined whether internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02, "Audit Requirements for Federal Financial Statements," as amended. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal control.

Our consideration of internal control over financial reporting would not necessarily disclose all matters on the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants (AICPA), reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the agency's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements.

Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of inherent limitations in any internal control structure, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of internal control over financial reporting to future periods are subject to the risk that the internal control may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

The results of our tests disclosed no instances of reportable conditions or material weaknesses.



REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS AND OTHER MATTERS

The management of the Japan-United States Friendship Commission is responsible for complying with laws and regulations applicable to the agency. As part of obtaining reasonable assurance about whether the agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin No. 01-02, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996, and the Japan-United States Friendship Act of 1975, as amended, that established the Japan-United States Friendship Commission, and defined its public purpose and governing structure. We limited our tests of compliance to these provisions, and we did not test compliance with all laws and regulations applicable to The Commission.

Providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

Our tests of compliance with certain provisions of laws, regulations, contracts, grant agreements, and memorandums of understanding as described above, exclusive of those referred to in FFMIA, disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 01-02.

Under FFMIA, we are required to report whether the agency's financial management systems substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. Since The Commission does not own its own financial systems, and relies upon GSA Heartland for financial transactions processing and GSA National Payroll Center for payroll processing, to meet this requirement, we performed tests of compliance by:

1. Evaluating the SAS 70 review "Report on Controls Placed in Operation and Test of Operating Effectiveness for the Period July 1, 2005 to June 30, 2006 for GSA Heartland Finance Center External Services Division and Pegasys Financial System," dated September 13, 2006, and the SAS 70 review "Report on Controls Placed in Operation and Test of Operating Effectiveness for the Period July 1, 2005 to June 30, 2006" for GSA's National Payroll Center, Payroll Accounting and Reporting System, dated September 13, 2006.
2. Designing and performing tests of controls and transactions to evaluate the effectiveness of controls at the intersection of The Commission's and GSA's control systems throughout the accounting cycle.



3. Considering the financial system requirements, accounting standards, and standard general ledger at the transaction level criteria for FFMIA compliance set forth in OMB Memorandum "Revised Implementation Guidance for the Federal Financial Management Improvement Act" dated January 4, 2001 while performing our evaluation of SAS 70 reviews and conducting tests of controls and transactions.

The results of our tests disclosed no instances in which the agency's financial management systems did not substantially comply with Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level.

DISTRIBUTION

This report is intended for the information and use of the Japan-United States Friendship Commission's management and board of commissioners, OMB, the Government Accountability Office, and the U.S. Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Martin & Wall, P.C.

October 25, 2006
Washington, DC

THE JAPAN - U.S. FRIENDSHIP COMMISSION

BALANCE SHEET

As Of September 30, 2006 and 2005

	2006	2005
Assets:		
Intragovernmental:		
Fund Balance With Treasury (Note 3)	\$ 1,195,050	\$ 910,299
Investments (Note 4)	39,521,844	39,787,770
Total Intragovernmental	40,716,894	40,698,069
Other	700	
Total Assets	<u>\$ 40,717,594</u>	<u>\$ 40,698,069</u>
Liabilities: (Note 6)		
Intragovernmental:		
Accounts Payable	\$ 22	\$
Total Intragovernmental	22	
Accounts Payable	35,468	
Other (Note 7)	79,300	67,590
Total Liabilities	114,790	67,590
Net Position:		
Cumulative Results of Operations - Earmarked Funds (Note 8)	40,602,804	
Cumulative Results of Operations		40,630,479
Total Net Position	40,602,804	40,630,479
Total Liabilities and Net Position	<u>\$ 40,717,594</u>	<u>\$ 40,698,069</u>

The accompanying notes are an integral part of these financial statements.

THE JAPAN - U.S. FRIENDSHIP COMMISSION

STATEMENT OF NET COST

For The Years Ended September 30, 2006 and 2005

	2006	2005
Program Costs:		
Program A:		
Gross Costs (Note 9)	\$ 2,214,688	\$ 2,549,270
Less: Earned Revenue		
Net Program Costs	2,214,688	2,549,270
Cost Not Assigned to Programs		
Less: Earned Revenues Not Attributed to Programs		
Net Cost of Operations	<u>\$ 2,214,688</u>	<u>\$ 2,549,270</u>

The accompanying notes are an integral part of these financial statements.

THE JAPAN - U.S. FRIENDSHIP COMMISSION

STATEMENT OF CHANGES IN NET POSITION

For The Years Ended September 30, 2006 and 2005

	2006 Earmarked Funds	2006 All Other Funds	2006 Eliminations	2006 Consolidated Total	2005 Consolidated Total
Cumulative Results of Operations:					
Beginning Balances	\$ 40,630,479	\$	\$	\$ 40,630,479	\$ 40,198,693
Budgetary Financing Sources:					
Non-exchange Revenue	2,159,913			2,159,913	2,954,970
Other Financing Resources (Non-Exchange):					
Donations and Forfeitures of Property					
Transfers-In/Out Without Reimbursement					
Imputed Financing		27,100		27,100	26,086.00
Other					
Total Financing Sources	2,159,913	27,100		2,187,013	2,981,056
Net Cost of Operations (+/-)	2,187,588	27,100		2,214,688	2,549,270
Net Change	(27,675)	-		(27,675)	431,786
Cumulative Results of Operations	<u>\$ 40,602,804</u>	<u>\$</u>	<u>\$</u>	<u>\$ 40,602,804</u>	<u>\$ 40,630,479</u>
Unexpended Appropriations:					
Beginning Balances	\$	\$	\$	\$	\$
Budgetary Financing Sources:					
Appropriations Received					
Appropriations Transferred-In/Out (+/-)					
Other Adjustments					
Appropriations Used					
Total Budgetary Financing Sources					
Total Unexpended Appropriations					
Net Position	<u>\$ 40,602,804</u>	<u>\$</u>	<u>\$</u>	<u>\$ 40,602,804</u>	<u>\$ 40,630,479</u>

The accompanying notes are an integral part of these financial statements.

THE JAPAN - U.S. FRIENDSHIP COMMISSION
STATEMENT OF BUDGETARY RESOURCES
For The Years Ended September 30, 2006 and 2005

	2006	2006	2005	2005
	Budgetary	Non-Budgetary Credit Program Financing Accounts	Budgetary	Non-Budgetary Credit Program Financing Accounts
Budgetary Resources:				
Unobligated Balance:				
Beginning of Period	\$ 39,530,464	\$	\$ 39,527,612	\$
Recoveries of Prior Year Obligations	2,201		9,977	
Budget Authority:				
Appropriations Received	2,175,956		2,321,097	
Earned				
Collected	3,150			
Subtotal	\$ 2,179,106		\$ 2,321,097	
Permanently Not Available				
Total Budgetary Resources	<u>\$ 41,711,771</u>	<u>\$</u>	<u>\$ 41,858,686</u>	<u>\$</u>
Status of Budgetary Resources:				
Obligations Incurred				
Direct (Note 10)	\$ 2,173,016	\$	\$ 2,328,223	\$
Subtotal	\$ 2,173,016		\$ 2,328,223	
Unobligated Balances				
Apportioned				
Exempt from Apportionment	39,538,755		39,530,463	
Subtotal	\$ 39,538,755		\$ 39,530,463	
Unobligated Balances - Not Available				
Total Status of Budgetary Resources	<u>\$ 41,711,771</u>	<u>\$</u>	<u>\$ 41,858,686</u>	<u>\$</u>
Change in Obligated Balances:				
Obligated Balance, Net:				
Unpaid Obligations, Brought Forward, October 1	\$ 51,662	\$	\$ 250,635	\$
Total, Unpaid Obligated Balance, Brought Forward, Net	\$ 51,662		\$ 250,635	
Obligations Incurred	2,173,016		2,328,223	
Gross Outlays (-)	(2,144,238)		(2,517,218)	
Recoveries of Prior-Year Unpaid Obligations, Actual (-)	(2,201)			
Change in Uncollected Customer Payments from Federal Sources				
Obligated Balance, Net, End of Period:				
Unpaid Obligations (+)	78,239		51,662	
Uncollected Customer Payments from Federal Sources (-)				
Total, Unpaid Obligated Balance, Net, End of Period	<u>\$ 78,239</u>	<u>\$</u>	<u>\$ 51,662</u>	<u>\$</u>
Net Outlays:				
Gross Outlays (+)	2,144,238		2,517,218	
Offsetting Collections (-)	(3,150)			
Less: Distributed Offsetting Receipts				
Net Outlays	<u>\$ 2,141,088</u>	<u>\$</u>	<u>\$ 2,517,218</u>	<u>\$</u>

The accompanying notes are an integral part of these financial statements.

THE JAPAN - U.S FRIENDSHIP COMMISSION

STATEMENT OF FINANCING

For The Years Ended September 30, 2006 and 2005

	2006	2005
<i>Resources Used to Finance Activities:</i>		
Budgetary Resources Obligated		
Obligations Incurred	\$ 2,173,016	\$ 2,328,223
Less: Spending Authority from Offsetting Collections and Recoveries	5,351	9,977
Obligations Net of Offsetting Collections and Recoveries		
Less: Distributed Offsetting Receipts		
Net Obligations	2,167,664	2,318,246
 Other Resources		
Imputed Financing from Costs Absorbed by Others	27,100	26,086
Other Resources (+/-)		
Net Other Resources Used to Finance Activities	27,100	26,086
 Total Resources Used to Finance Activities	2,194,764	2,344,332
 <i>Resources Used to Finance Items not Part of the Net Cost of Operations</i>		
Change in Budgetary Resources Obligated for Goods		
Services and Benefits Ordered But Not Yet Provided	(11,964)	(196,816)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	(11,964)	(196,816)
 Total Resources Used to Finance the Net Cost of Operations	2,206,728	2,541,148
 <i>Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:</i>		
Components Requiring or Generating Resources in Future Periods:		
Increase in Annual Leave Liability (Note 11)	7,960	7,263
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	7,960	7,263
 <i>Components Not Requiring or Generating Resources:</i>		
Depreciation and Amortization		
Revaluation of Assets or Liabilities (+/-)		
Other (+/-)		859
Total Components of Net Cost of Operations that will not Require or Generate Resources	-	859
Total Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period	7,960	8,122
Net Cost of Operations	\$ 2,214,688	\$ 2,549,270

The accompanying notes are an integral part of these financial statements.

The Japan-United States Friendship Commission
Notes to Financial Statements
September 30, 2006 and 2005

NOTE 1 – OVERVIEW OF REPORTING ENTITY

The Japan – U.S. Friendship Commission (Commission) is an independent agency of the Executive Branch of the United States Government created by the Japan-United States Friendship Act of 1975, as amended. The Commission is the chief instrument of the US government for training and maintaining expertise on Japan throughout American academic and professional institutions. The Commission's goal is to strengthen the national interest in US dealings with Japan.

The Commission serves only to make grants to private institutions. It does not operate its own programs. It relies on the private, non-profit sector to organize and operate programs of training, research and exchange. The Commission operates its grant-making activities in four areas: Japanese studies in American higher education; public affairs and education; the study of the United States in Japanese higher education; and the arts.

The Commission receives no funds from general revenues from the US budget. The Commission operates entirely from the interest earnings of the Japan-United States Friendship Trust Fund, which originated from payments by the Japanese government for US assistance. Congress established this fund to be managed by the Commission. These funds remain in the US Treasury in a separate account.

The Commission annually draws down five percent of its principal for its operations without seeking congressional appropriation to do so. It is also authorized to seek appropriation of its interest income, but the Commission has not sought appropriation of its interest income since FY 1997. Beginning in FY97 and continuing thereafter, Congress declined to appropriate the Commission's interest income, stating that in effect this would increase discretionary spending, and directed the Commission to use its drawdown authority instead to continue funding its operations. The Commission's enabling legislation allows the Commission to accept gifts and in-kind contributions, which it may disperse at its own discretion without reference to the appropriations process.

Decisions on the expenditure of the Commission's earnings are made by a board of eighteen commissioners -- nine private citizens and nine US government officials -- who meet twice a year to consider all grant proposals that come to it. Among the government officials are four Members of Congress, bipartisan representation from the Senate and the House of Representatives, who serve in a non-voting capacity. By statute, the Members of the House of Representatives who serve on the Commission board are appointed by the Speaker of the House 22 USC §2903 (a) (2). Rep. McDermott (D-WA) and Rep. Petri (R-WI) currently serve on the Commission. In the Senate, Senator Rockefeller (D-WV) and Senator Murkowski (R-AK) currently serve on the Commission.

The Japan-United States Friendship Commission
Notes to Financial Statements
September 30, 2006 and 2005

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These financial statements have been prepared from the accounting records of the Commission in accordance with Generally Accepted Accounting Principles (GAAP), and the form and content for entity financial statements specified by the Office of Management and Budget (OMB) in OMB Circular A - 136. GAAP for Federal entities are standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), which has been designated the official accounting standards-setting body for the Federal Government by the American Institute of Certified Public Accountants.

OMB Circular A – 136 requires agencies to prepare financial statements, which include a Balance Sheet, a Statement of Net Cost, a Statement of Changes in Net Position, a Statement of Budgetary Resources and a Statement of Financing. The balance sheet presents, as of September 30, 2006, amounts of future economic benefits owned or managed by the Commission (assets), amounts owed by the Commission (liabilities), and amounts, which comprise the difference (net position). The Statement of Net Cost reports the full cost of the program, both direct and indirect costs of the output, and the costs of identifiable supporting services provided by other segments within the Commission and other reporting entities. The Statement of Budgetary Resources reports an agency's budgetary activity, while the Statement of Financing reconciles budgetary resources to the agency's net cost of operations.

Basis of Accounting

Transactions are recorded on the accrual accounting basis in accordance with OMB Circular A – 136. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Revenues and Other Financing Sources

The Commission is a trust fund, where the financing source consists of interest revenue from investments. Other financing sources for the Commission consist of imputed financing sources which are costs financed by other Federal entities on behalf of the Commission, as required by Statement of Federal Financial Accounting Standard (SFFAS) No. 5, Accounting for Liabilities of the Federal Government. The Commission does not receive appropriations.

The Japan-United States Friendship Commission
Notes to Financial Statements
September 30, 2006 and 2005

NOTE 3 – FUND BALANCE WITH TREASURY

Fund Balance with the Treasury is the aggregate amount of funds in the entity's accounts with Treasury for which the entity is authorized to make expenditures and pay liabilities. The fund balance is increased by receiving interest income, nonexchange revenues, appropriations and the like; it is reduced by disbursements, investments in U.S. securities, etc.

The table below displays the composition of Fund Balance with Treasury. This display is in a different format from the balance sheet line items because of how Trust fund investments are accounted for. Item A. Fund Balance with Treasury includes the cash portion of Fund Balance with Treasury (which corresponds to Fund Balance with Treasury on the balance sheet), and investments, which are described in Note 4. All of the Commission's cash portion of Fund Balance with Treasury is derived from investment interest revenue. The investments component of Fund Balance with Treasury does not include the amortization amounts for bond premiums or discounts, but the Balance Sheet amounts for investments do include the amortization of bond premiums or discounts in accordance with Generally Accepted Accounting Principles.

A. Fund Balance with Treasury	<u>2006</u>	<u>2005</u>
Trust Fund (Investment & Cash)	\$39,616,994	\$39,582,125
B. Status of Fund Balance with Treasury		
1) Unobligated Balance		
a) Available	39,538,755	39,530,463
b) Unavailable		
2) Obligated Balance not yet Disbursed	<u>78,239</u>	<u>51,662</u>
Total	\$39,616,994	\$39,582,125

NOTE 4 – INVESTMENTS

As of September 30, 2006, investments were composed of the following:

	Cost	Amortization Method	Unamortized Premium (Discount)	Investments, Net
Intragovernmental Securities:				
Market Based Notes	\$38,866,176	Straight-line	\$375,176	\$38,491,000
Accrued Interest	\$655,667			
Total:	\$39,521,843			\$38,491,000

The Japan-United States Friendship Commission
Notes to Financial Statements
September 30, 2006 and 2005

NOTE 4 – INVESTMENTS (CONTINUED)

As of September 30, 2005, investments were composed of the following:

	Cost	Amortization Method	Unamortized Premium (Discount)	Investments, Net
Intragovernmental Securities:				
Market Based Notes	\$39,133,915	Straight-line	\$375,915	\$38,758,000
Accrued Interest *1	*653,855			
Total:	\$39,787,770			\$38,758,000

*1 Fiscal Year 2005 accrued interest figure was adjusted for rounding purposes.

NOTE 5 – FIXED ASSETS

The Commission owns certain fixed assets that are not reflected on the balance sheet as of September 30, 2006 or 2005. These consist of office furniture and computer equipment that were acquired in prior years, are still in service, but are fully or near-fully depreciated and have immaterial book values. Therefore, these fixed assets are not booked as assets as of September 30, 2006 or 2005.

NOTE 6 – LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Liabilities of the Commission are classified as liabilities covered or not covered by budgetary resources. As of September 30, 2006, the Commission showed liabilities covered by budgetary resources of \$57,215 and liabilities not covered by budgetary resources of \$57,575.

Liabilities covered by budgetary resources is composed of Accounts Payable \$35,490 and Accrued Funded Payroll and Leave \$21,725.

With the Public	<u>2006</u>	<u>2005</u>
Other (Unfunded leave liability)	<u>\$57,575</u>	<u>\$49,615</u>
Total liabilities not covered by budgetary resources	57,575	49,615
Total liabilities covered by budgetary resources	<u>57,215</u>	<u>17,975</u>
Total liabilities	\$114,790	\$67,590

The Japan-United States Friendship Commission
Notes to Financial Statements
September 30, 2006 and 2005

NOTE 7 – OTHER LIABILITIES

Other liabilities with the public consist of Accrued Funded Payroll and Leave of \$17,975 and Unfunded Leave in the amount of \$57,574.

	<u>With the Public</u>	<u>Non-Current</u>	<u>Current</u>	<u>Total</u>
2006	Other Liabilities	\$57,575	\$21,725	\$79,300
2005	Other Liabilities	\$49,615	\$17,975	\$67,590

NOTE 8 – EARMARKED FUNDS

Balance Sheet as of Sept. 30

ASSETS

Fund Balance with Treasury	\$	1,195,050		\$	1,195,050
Investments	\$	39,521,844		\$	39,521,844
Other Assets	\$	700		\$	700
Total Assets	\$	40,717,594	\$	\$	40,717,594

Accounts Payable	\$	35,490		\$	35,490
Other Liabilities	\$	79,300		\$	79,300
Total Liabilities	\$	114,790	\$	\$	114,790

Cumulative Results of Operations	\$	40,602,804		\$	40,602,804
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Total Liabilities and Net Position	\$	40,717,594	\$	\$	40,717,594
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**Statement of Net Cost For the
Period Ended Sept. 30**

Gross Program Costs	\$	2,187,588	\$ 27,100	\$	2,214,688
Net Program Costs	\$	2,187,588	\$	\$	2,214,688
Net Cost of Operations	\$	2,187,588	\$	\$	2,214,688

**Statement of Changes in Net Position
For the Period Ended Sept. 30**

Net Position Beginning of Period	\$	40,630,479		\$	40,630,479
Non-Exchange Revenue	\$	2,159,913		\$	2,159,913
Other Financing Sources					
Imputed Financing			\$ 27,100	\$	27,100
Net Cost of Operations	\$	2,187,588	\$ 27,100	\$	2,214,688
Change in Net Position	\$	(27,675)	\$ -	\$	(27,675)
Net Position End of Period	\$	40,602,804	\$ -	\$	40,602,804

The Japan-United States Friendship Commission
Notes to Financial Statements
September 30, 2006 and 2005

NOTE 9 – INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE

Intragovernmental costs are those of goods/services purchased from a federal entity.

	<u>Total 2006</u>	<u>Total 2005</u>
Program A		
Intragovernmental costs	0	48,632
Public costs	<u>2,214,688</u>	<u>2,500,638</u>
Total Program A costs	<u>2,214,688</u>	<u>2,549,270</u>
Total Program A	<u><u>2,214,688</u></u>	<u><u>2,549,270</u></u>

NOTE 10 – APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED

The Commission is not subject to apportionment, nor does it have reimbursable authority. Therefore, all obligations are direct, exempt.

	<u>2006</u>	<u>2005</u>
Direct		
Category A	0	0
Category B	0	0
Exempt	\$2,173,016	\$2,328,223

NOTE 11 – EXPLANATION OF THE RELATIONSHIP BETWEEN LIABILITIES NOT COVERED BY BUDGETARY RESOURCES ON THE BALANCE SHEET AND THE CHANGE IN COMPONENTS REQUIRING OR GENERATING RESOURCES IN FUTURE PERIODS

Liabilities not covered by budgetary resources total \$57,575 and the change in components requiring or generating resources in future period shows \$7,960. The \$7,960 is the net increase of future funded expenses – leave between FY05 and FY06. Accrued funded payroll liability is covered by budgetary resources and is included in the net cost of operations. Whereas, the unfunded leave liability includes the expense related to the increase in annual leave liability for which the budgetary resources will be provided in a subsequent period.

	<u>2006</u>	<u>2005</u>
Liabilities not covered by budgetary resources	\$57,575	\$46,615
Change in components requiring/generating resources	\$7,960	\$7,263

The Japan-United States Friendship Commission
Notes to Financial Statements
September 30, 2006 and 2005

NOTE 12 – COMMITMENTS

The Commission leases office space at 1201 15th Street, N.W., Washington, DC. The lease was entered into in January 2005, and expires in December 2014. The lease contains an option to renew.

The following is a schedule of minimum lease payments required by the lease:

Year Ending September 30, 2007	\$ 82,786
2008	83,364
2009	83,960
2010	84,574
2011 and thereafter	<u>366,656</u>
	<u>\$701,340</u>

Lease payments for the year ended September 30, 2006 were \$82,224.